AGRI-FOOD EQUITY FUND

FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Agri-Food Equity Fund as at March 31, 2000 and the statements of revenue, expenditure and net financial assets, and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Regina, Saskatchewan
October 24, 2000

Fred Wendel, CMA, CA
Acting Provincial Auditor

Statement 1

AGRI-FOOD EQUITY FUND
STATEMENT OF FINANCIAL POSITION
As at March 31

	2000	1999
FINANCIAL ASSETS		
Due from General Revenue Fund (Note 3)	$ 975,640	$ 414,922
Accounts receivable	12,048	6,078
Accrued interest & dividends receivable	54,760	88,982
Deposits held by lawyer (Note 7)	---	430,000
Due from Department of Agriculture & Food (Note 9)	3,150,000	3,150,000
Investments (Note 4)	9,373,574	8,178,218
	$ 13,566,022	$ 12,268,200
LIABILITIES		
Accounts payable	$ ---	$ 842
Loan payable (Note 8)	11,969,557	9,763,081
	11,969,557	9,763,923
Net financial assets (Statement 2)	$ 1,596,465	$ 2,504,277

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
STATEMENT OF REVENUE, EXPENDITURE AND NET FINANCIAL ASSETS
Year Ended March 31

	Budget 2000	2000	1999
Revenue			
Grants from the Department of Agriculture & Food	$ 2,927,000	$ ---	$ 3,150,000
Interest & dividends	410,000	215,398	234,701
Gain on sale of investment	---	18,240	---
Administration fee	5,000	1,510	5,000
Miscellaneous	---	---	195
Total revenue	3,342,000	235,148	3,389,896
Expenditure			
Financing costs	---	---	78
Professional fees	---	---	842
Provision for investment loss	3,280,000	1,142,960	80,783
Total expenditure	3,280,000	1,142,960	81,703
Surplus (Deficit) for the year	$ 62,000	(907,812)	3,308,193
Net financial assets (deficiency), beginning of year		2,504,277	(803,916)
Net financial assets, end of year - to Statement 1		$ 1,596,465	$ 2,504,277

(See accompanying notes to the financial statements)

Statement 3

AGRI-FOOD EQUITY FUND
STATEMENT OF CASH FLOWS
Year Ended March 31

	2000	1999
Cash flows from operating activities:		
Cash receipts from clients	$ 2,884	$ 4,695
Cash received from Agricultural Credit Corporation of Saskatchewan	---	13,489
Grant received from Department of Agriculture and Food	---	220,601
Interest received from General Revenue Fund	29,466	10,107
Interest received from investments	164,134	64,464
Dividends received from investments	48,676	70,577
Cash paid to suppliers	(842)	(642)
	244,318	383,291
Cash flows from financing activities:		
Advances from the General Revenue Fund	2,206,476	4,850,000
Cash flows from investing activities:		
Investments in Saskatchewan agriculture enterprises	(2,206,476)	(4,420,000)
Investment funds deposited with lawyer	---	(430,000)
Redemptions of investments	316,400	10,000
	(1,890,076)	(4,840,000)
Net increase in cash and cash equivalents	560,718	393,291
Cash and cash equivalents, beginning of year	414,922	21,631
Cash and cash equivalents, end of year	$ 975,640	$ 414,922

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2000

1. Authority and Definition

The Agri-Food Equity Fund operates pursuant to Section 17.2 of *The Department of Agriculture Act* (Act) to promote and develop agriculture diversification in Saskatchewan. The Fund originated in 1994 as a division of the Agricultural Credit Corporation of Saskatchewan (ACS). The transfer of authority for the Fund to the Department of Agriculture and Food was effective September 22, 1997 by Order in Council 625/1997.

The Fund's mandate is to finance enterprises that promote the creation and expansion of agricultural enterprises in Saskatchewan. Investments may take the form of secured bonds, secured debentures and equity of the enterprise. Pursuant to regulations under the Act, the Fund is restricted to a maximum 49% investment in an enterprise's long-term debt or equity, up to $1 million unless authorized by the Minister. The total of all investments made by the Fund is limited to $35 million by the year 2003.

2. Significant Accounting Policies

The financial statements are prepared in accordance with generally accepted accounting principles. The following accounting principles are considered significant.

a) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

b) Revenue Recognition

Interest and dividend revenue is recognized as follows:

i) When there is reasonable assurance of ultimate collection, revenue is recognized when earned.
ii) When there is uncertainty as to ultimate collection, revenue is recognized when received.

Grants from the Department of Agriculture and Food are recognized as revenue when they are received/receivable.

c) Investments

Investments are accounted for at cost.

d) Provision for Investment Loss

The provision for investment loss represents management's estimate of likely losses based upon an individual review of the investments. It is possible that changes in future conditions in the near term could require a material change in the provision.

3. Due from General Revenue Fund

The Fund's bank account is included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate (2000 average rate – 4.79%; 1999 average rate 5.04%) and the Fund's average daily bank account balance.

4. Investments

Investments are comprised as follows:	2000	1999
Loans and debentures	$ 7,357,225	$ 6,384,785
Common shares	3,159,681	2,509,645
Preferred shares	2,757,881	2,042,041
	13,274,787	10,936,471
Less: provision for investment loss	(3,901,213)	(2,758,253)
	$ 9,373,574	$ 8,178,218

Investments include interest-bearing instruments at rates ranging from 6% to 15% with maturities extending to the year 2005. Investments also include $1.20 million (1999 – $1.95 million) in participating debentures. The profitability of the investee determines the repayment of principal and interest on the participating investments.

5. Financial Instruments

The Fund has determined the fair value of its financial instruments as follows:

a) Due from General Revenue Fund, Due from Department of Agriculture & Food, accounts receivable, accrued interest and dividends receivable, accounts payable and loan payable:

The carrying amounts on the statement of financial position approximate their fair value due to the short-term nature of these instruments.

b) Investments:

It is not practicable to determine fair values for the investment portfolio due to the lack of a market for these investments. An attempt to determine fair values would not be sufficiently reliable.

6. Credit and Investment Risk

Credit risk is inherent in lending and investment activities. The Fund is exposed to the types of credit risk which are typical for any lending institution. However, the Fund operates in an environment of higher risk than the banking sector or other traditional financing institutions. This is, in part, because the Fund has a mandate to promote, encourage or contribute to the development of agriculture in Saskatchewan, which involves support for start-up operations, new companies' products at the commercialization stage, and expansions. The Fund also makes equity investments which, by definition, carry a higher risk. The Fund's risk spectrum is comparable to private venture capital.

7. Commitments

At year-end, the Fund had approved but not yet disbursed investments of $2.5 million (1999 - $650,000). This normally includes Deposits held by lawyer, however in the current year there were no deposits held by lawyer (1999 - $430,000).

8. Loan Payable

The Fund borrows from the General Revenue Fund to fulfil its mandate. The loan is non-interest bearing with no fixed terms of repayment and is limited to a maximum of $35 million.

9. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since they are all controlled by the Government. These financial statements include transactions with other Government agencies.

The Long Term Receivable is a grant of $3,150,000 (1999 - $3,150,000) due from the Department of Agriculture and Food.

The Fund received use of office space and administrative services from the Department of Agriculture and Food without charge.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.